

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

For the Years Ended December 31, 2014, and 2013

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

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816 N Washington
Junction City, KS 66441
(785) 238-5166
Fax (785) 238-6830

529 Humboldt, Suite 1
Manhattan, KS 66502
(785) 537-9700
Fax (785) 537-3734

505 NW 3rd, Suite 1
Abilene, KS 67410
(785) 263-2171
Fax (785) 263-3340

www.pgh-cpa.com

MEMBERS:
American Institute of
Certified Public Accountants

Kansas Society of Certified
Public Accountants



Pottberg, Gassman & Hoffman, Chtd.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Ottawa County, Kansas
Rural Water District No. 2
Salina, Kansas 67402

We have audited the accompanying financial statements of the business-type activities of Ottawa County Rural Water District No. 2, as of and for the years ended December 31, 2014 and 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ottawa County Rural Water District No. 2, as of December 31, 2014 and 2013 and the respective changes in financial position and

cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 and budgetary comparison information on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pottberg, Gassman & Hoffman, Chd.

POTTBERG, GASSMAN & HOFFMAN, CHARTERED
Manhattan, Kansas
May 8, 2015

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Ottawa County Rural Water District No. 2's annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2014. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Statements

The attached financial statements present the assets and liabilities, revenues and expenses and changes in net position of the District on the accrual basis of accounting. The statements of net position provide information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) presented as net position. Net position is reported in three categories: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as useful indicators of whether the District's financial position is improving or deteriorating.

The statements of revenues, expenses and changes in net position, present information showing how the net position of the District changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods. The statements of cash flows reverse the accruals to show the effect of the annual transactions on the available cash balance. Both the financial statements and supplemental information are shown comparative to the prior year.

Financial Highlights

The District's total assets increased by \$49,275 from December 2013 to 2014. Capital assets increased \$1,956,988 between December 2013 and 2014. \$1,352,527 of this increase was related to the new Chlorination Building and build out of the water line and \$531,463 was related to the completion of the Moorman well fields. Of these two new asset additions, a majority was in Construction in Process in December 2013 and thus, there was a decrease in Construction in Process of \$886,838 as of December 2014. The remaining noncurrent assets decreased \$872,622 due to the spending of the 2012 bond proceeds on the work completed in 2014.

Total liabilities decreased \$20,721 from December 2013 to 2014. \$131,825 was an increase in accounts payable related to work completed but not yet paid on the build out of the water system, while total noncurrent liabilities decreased \$152,850 with payments on the 2009, 2012, and 2013 bond issuances and the easement.

The District's net position increased between December 2013 and 2014 by \$69,996 with a \$1,918,365 decrease in unrestricted net assets and an increase of \$1,988,361 in net investment in capital assets.

Water revenues increased \$9,006 between December 2013 and 2014 while total operating expenses increased \$37,422 between December 2013 and 2014. The increase in operating expenses was mainly due to increases in contract labor of \$18,841, salaries and wages of \$5,987 and mileage of \$4,867.

The District operating income decreased by \$46,640, after recognizing depreciation expense of \$136,673 in 2014, compared to realized income from operations of \$162,420 after recognizing depreciation of \$118,449 in 2013.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The District realized net non-operating expenses of \$60,784 in 2014 and \$33,169 in 2013. The higher non-operating expenses in 2014 were primarily related to increased interest expense in 2014.

Total cash on hand at the end of the year was \$1,016,708 which was a decrease of \$26,933 over the cash on hand at December 31, 2013. Ending net position was \$3,192,183 and \$3,122,187 as of December 2014 and 2013 respectively and the change in net position was \$69,996 and \$154,251 for the periods then ended.

Additional Information

In 2014 the District added three (3) and lost five (5) benefit units making a total of 866 benefit units in the District. In 2014 76,281,000 gallons of water were pumped while the gallons sold were 63,009,000 resulting in an annual water loss of 9.20%. The water district experienced an enormous amount of discolored water due to an extremely bad break in two lines, two hours apart, on Humbarger Road. Concurrently, a main line going to the main tower on Ohio Street Road cracked, causing the tower to empty. Due to the high amount of discolored water, the District asked customer to flush their own service line and the District gave them an adjustment on the water bill.

Since we are a customer read district, the board has implemented a policy that a staff member will read all the meters once a year, and whenever necessary, to help maintain a reasonable yearly percentage loss. The district continually communicates with customers to keep the accounts receivable to a minimum. The District shows a considerable amount of unearned revenue due to instances of customers overestimated their gallons usage. The unearned revenue is applied to the customer accounts as credits as needed.

The Business Manager prepared the 2014 annual budget, as required by the BYLAWS of the District (see Article 8, Powers and Duties of Directors. Paragraph G). The annual budget for 2014 was presented to the Board of Directors for approval. The Board took action and approved the budget, stating the rates were sufficient as of now, but in the event the district gets below a 1.40% debt service ratio the Board will revisit the budget.

The installation of the Chlorination Building and 10" PVC piping, gate valves, flush valves and all appurtenances, the Public Water Supply for Wells No. 9, 10, 11 and 12, were all completed in 2014. Pestinger Pump service received their final pay estimate No. 4 payment in August 2014. The CERTIFICATE OF SUBSTANTIAL COMPLETION was dated October 1, 2014 for the 2013 Water Supply Improvements, distribution System and Chlorination building, contractor Larson Construction, Inc. The final Pay Estimate No. 7 payable to Larson Construction for the Moorman Project was reviewed by the Board of Directors. The project was 100% complete but 135 days over the completion date on the contract. Mr. Elliot spoke to the Board of Directors in his behalf as to why it took so long. There were several change orders to be considered, one of which was a Generac 60KW 480 volt 3 phase LP gas fueled standby generator for \$28,660. Another change order was to add 12' PVC water line for the new tower which included 640 L.F. 12" cl. 160 PVC pipe, 12: MJ tee with 2 each 12 x 10 reducers, 12" MJ gate valve and box, 640 L.F. of tracer wire for an amount of \$12,789. The Board decided to only charge the penalty phase on the extra cost to the district for the extra time incurred because of the delay. Motion was made, seconded and carried, to withhold \$10,000 instead of over \$20,000 for the per day penalty from Pay Estimate No. 7 for the final payment to Larson Construction. The final payment was made in January 2015 and recorded as a payable as of December 31, 2014.

The City of Bennington approached the Water District in May 2014 to supply the City of Bennington with water to its present customers. The water district board stated they would provide the water to the City of Bennington only when the Moorman well field is completely finished and the District is serving water to its present customers. The Water district would charge

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MANAGEMENT'S DISCUSSION AND ANALYSIS

the City an application fee of \$5,000 and charge the City of Bennington the same as the regular customers are charged for the water used per month, included would be the minimum charge, rate per thousand gallons and the protection fee.

The City of Bennington and the Ottawa County Rural Water District signed a Water Purchase Contract on June 23, 2014. The contract is for a term of five (5) years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser, and thereafter may be renewed or extended for such term, or terms, as may be agreed upon by the Seller and Purchaser. It was also stated the City of Bennington's water meter would be read by a water district employee or staff member on the first day of each month and no later than the fifth day of each month. The contract was dated and signed by the Chairman of the District, Secretary of the District, Mayor of the City of Bennington and City Clerk of the City of Bennington

As discussed in the management report from 2012 the water tower on North Ohio Street needs major repair and is not adequate to serve the needs of the water district for storage. The district had obtained an option to purchase a parcel of land for the amount of \$25,000 from Mr. Trey Mowery in the Southwest Quarter of Section 31, Township 12 S, and Range 2 W in Ottawa County KS to construct an elevated water storage tank. Mr. Mowery signed the "Option to Purchase" and the district gave him a check in the amount of \$1,000, which was non-refundable. In October 2014 Mr. William E. Mowery III and Mrs. Kimberly J. Mowery closed the sale/purchase of the Land in which the District paid Mr. Mowery the amount of \$24,000 in exchange for the Warranty Deed named above. When the new elevated water storage tank is completed in 2016 the old water tower on North Ohio Street will be taken down.

The District received three bids for the construction of the 300,000 gallon elevated water tower on Ohio Street. On February 11, 2015 the Water District Board approved the low bid of \$813,000 from Caldwell Tanks, Inc. from Louisville Kentucky. On March 27, 2015 there was a Pre-Construction Conference at the Saline County Planning and Zoning meeting room, where the notice to proceed was signed by the Ottawa County Rural Water District No. 2, chairman and the project manager from Caldwell Tanks.

The Board of Directors will borrow an amount not to exceed \$970,929, for the total amount of the tower, as a Loan with Kansas Department Health and Environment (KDHE), with an interest rate of 2.60%. The payments of \$31,282.73 per month will begin August 1, 2016 payable every 6 months ending February 1, 2036.

The District transfers \$10,000 to \$20,000 each month into the Water District's savings account until it reaches a certain amount and then a Certificate of Deposit is purchased. This money is designated as improvements and/or can be used as the Board of Directors instructs.

All the substantial interest statements were completed and returned to the district.

The water district has an emergency disaster plan and a conservation plan in effect.

Since there are four employees and one contract worker of the district that are related, all their invoices and requests for reimbursement statements are reviewed and signed by one of the Board members. Also, in the event a monthly meeting is not held, the bank account check register of the district is presented to the Board of Directors for approval. This shows all invoices and payroll that was paid and all monies deposited. Each month the reconciliation of the bank accounts and bank statements are reviewed and signed by the Chairman of the District. On the bank statement the Chairman is shown where the United States Treasury (for Federal, social security and Medicare) and the Kansas Department of Revenue is paid monthly for the withholding taxes.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In the event the district does not have a meeting that month, the following month the Board reviews the check register in which the statements were paid and signed by the Chairman and/or Treasurer and/or Norma Griffin. The checks have two signatures as required.

Should you have any questions concerning this report or any other water district matter, feel free to call 785.823.2093.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
DECEMBER 31,

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,016,708	\$ 1,043,641
Accounts Receivable - Net	9,107	9,551
Inventory	12,026	10,248
Prepaid Expenses	-	3,987
Total Current Assets	<u>1,037,841</u>	<u>1,067,427</u>
Noncurrent Assets		
Construction Work in Progress	8,835	895,673
Capital Assets		
Engineering Costs	149,699	149,699
Office Equipment	11,614	28,316
Water Transmission and Distribution System	6,141,798	4,192,108
Water Wells and Easements	277,361	253,361
Accumulated Depreciation	<u>(2,327,589)</u>	<u>(2,208,922)</u>
Total Capital Assets	<u>4,252,883</u>	<u>2,414,562</u>
Certificate of Deposit - 2009 Bond Reserve	86,721	85,688
Certificate of Deposit - 2012 & 2013 Bond Reserve	79,989	79,194
Certificates of Deposit - Easement Reserve	-	13,240
2012 Bond Proceeds	-	1,148,902
2013 Bond Proceeds	<u>287,692</u>	<u>-</u>
Total Noncurrent Assets	<u>4,716,120</u>	<u>4,637,259</u>
TOTAL ASSETS	<u>\$ 5,753,961</u>	<u>\$ 5,704,686</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 131,825	\$ -
Accrued Interest Payable	8,594	9,082
Payroll Liabilities	2,166	1,680
Unearned Revenue - Customer Credits	40,816	43,320
Bonds Payable - Current Portion	145,000	140,000
Easements Payable - Current Portion	<u>12,850</u>	<u>12,850</u>
Total Current Liabilities	<u>341,251</u>	<u>206,932</u>
Noncurrent Liabilities		
Bonds Payable - 2009 Bond Issue (net of amortized discount and current portion)	738,449	772,675
Bonds Payable - 2012 Bond Issue (net of amortized discount and current portion)	556,556	620,289
Bonds Payable - 2013 Bond Issue (net of amortized discount and current portion)	925,522	969,753
Easement Payable (net of current portion)	<u>-</u>	<u>12,850</u>
Total Noncurrent Liabilities	<u>2,220,527</u>	<u>2,375,567</u>
Total Liabilities	<u>2,561,778</u>	<u>2,582,499</u>
Net Position		
Net Investment in Capital Assets	1,874,506	113,855
Restricted 2009 Bond Reserve	78,563	78,563
Restricted 2012 & 2013 Bond Reserve	64,242	64,242
Unrestricted	<u>1,174,872</u>	<u>3,093,237</u>
Total Net Position	<u>3,192,183</u>	<u>3,122,187</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,753,961</u>	<u>\$ 5,704,686</u>

The notes to the financial statements are an integral part of these statements.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Water Sales	<u>\$ 585,470</u>	<u>\$ 576,464</u>
OPERATING EXPENSES		
Accounting Fees	8,200	8,260
Attorney Fees	7,713	2,726
Chlorine Fees	4,125	7,635
Clean Drinking Water Fees	1,848	1,854
Contract Labor	79,015	60,174
Dues and Subscriptions	803	798
Fees and Permits	900	613
Insurance	17,555	18,511
Internet Fee	624	624
IRA Contributions	2,515	2,341
Lab Fees	885	324
Mileage	25,481	20,614
Miscellaneous	4,554	3,198
Office Supplies Expense	6,551	5,433
Payroll Taxes	6,773	6,463
Power	36,572	32,244
Professional Fees	3,988	3,516
Repairs and Maintenance	22,559	25,086
Salaries and Wages	90,466	84,479
Supplies Expense	3,881	3,021
Telephone	6,038	5,704
Water Protection Fees	1,971	1,977
TOTAL OPERATING EXPENSES	<u>333,017</u>	<u>295,595</u>
INCOME FROM OPERATIONS BEFORE DEPRECIATION	<u>252,453</u>	<u>280,869</u>
Depreciation	<u>(136,673)</u>	<u>(118,449)</u>
OPERATING INCOME (LOSS)	<u>115,780</u>	<u>162,420</u>
NON-OPERATING REVENUES AND EXPENSES		
Interest Income	15,190	19,087
Other Income	15,968	15,810
2013 Issuance Cost	(9,542)	(13,695)
Interest Expense	<u>(82,400)</u>	<u>(54,371)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(60,784)</u>	<u>(33,169)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>54,996</u>	<u>129,251</u>
Capital Contributions	<u>15,000</u>	<u>25,000</u>
CHANGE IN NET POSITION	<u>69,996</u>	<u>154,251</u>
NET POSITION, BEGINNING	<u>3,122,187</u>	<u>2,967,936</u>
NET POSITION, ENDING	<u><u>\$ 3,192,183</u></u>	<u><u>\$ 3,122,187</u></u>

The notes to the financial statements are an integral part of these statements.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 583,410	\$ 581,326
Cash Payments to Suppliers for Goods and Services	(136,125)	(111,092)
Cash Payments to Employees and Professional Contractors for Services	<u>(62,372)</u>	<u>(258,040)</u>
Net Cash Provided (Used) by Operating Activities	<u>384,913</u>	<u>212,194</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(1,070,150)	(707,052)
Principal Paid on Bonds	(140,000)	(100,000)
Principal Paid on Easement	(12,850)	(12,850)
Interest Paid on Bonds	(80,078)	(49,983)
Proceeds from Bond Issue	-	1,009,625
Issuance Costs of Bonds	(9,542)	(13,695)
Change in Bond Proceeds	861,210	(354,787)
Bond Reserve Decrease (Increase)	(1,828)	(4,072)
Easement Reserve Decrease (Increase)	13,240	12,840
Other Capital Activities	15,968	15,810
Capital Contributions	15,000	25,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(409,030)</u>	<u>(179,164)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	<u>15,190</u>	<u>19,087</u>
Net Cash Provided (Used) by Investing Activities	<u>15,190</u>	<u>19,087</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,927)	52,117
Cash and Cash Equivalents at January 1	1,043,641	991,524
Cash and Cash Equivalents at December 31	<u>\$ 1,034,714</u>	<u>\$ 1,043,641</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Income from Operations (before depreciation)	\$ 252,453	\$ 280,869
Changes in Receivables	444	(1,583)
Changes in Inventory	(1,778)	16,544
Changes in Payables	132,311	90,081
Changes in Unearned Revenue	2,504	6,445
Change in Prepaid Expenses	<u>3,987</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 384,913</u>	<u>\$ 212,194</u>

The notes to the financial statements are an integral part of these statements.

SUPPLEMENTAL INFORMATION

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rural Water District No. 2, Ottawa County, Kansas (District), was declared incorporated as a municipal Corporation by the Board of Commissioners of Ottawa County, Kansas. The board of directors for the district adopted bylaws at a meeting of the landowners of the district on June 11, 1979.

Basis of Accounting

The water district is a governmental organization operated as a business (proprietary) type entity. The District's financial information is reported on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The District performs proprietary activities and therefore is subject to all Governmental Accounting Standards Board (GASB) pronouncements (GASB 34 and 65 have been implemented) as well as Financial Accounting Standards Board (FASB) statements and interpretations, and Accounting Principles Board (APB) opinions that do not conflict with or contradict GASB pronouncements.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as installation fees and reimbursement for benefit units.

Statements of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments including bank deposit accounts, money market accounts and certificates of deposit classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the district to meet current liabilities if they wish to pay any applicable penalties.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets purchased or built are capitalized at cost. The District's policy is to capitalize all assets with a cost of \$500 or more and a useful life exceeding one year. Depreciation is recorded on the straight-line basis over the useful lives of the assets as follows:

Buildings	40 years
Infrastructure	40 years
Equipment	5 – 20 years

Inventory

Inventory is stated at cost and consists of pipe, valves, meters, and other items needed to repair water lines.

Noncurrent Assets

Noncurrent assets primarily include construction in process, capital assets, and reserves for bonds and easements. The amounts placed in the reserve often exceed the amount legally required to be restricted as they include interest earned and other monies designated by the board to be set aside to meet future obligations. The amounts legally required to be restricted are included in the bond and easement payable footnotes.

Accounts Payable

Accounts payable consist of invoices received from vendors for services or products received during the period but not yet paid.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxes

The District is exempt from federal and state income taxes.

NOTE 2 – DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank chartered in Kansas, or any other state, any trust company chartered in Kansas or any other state, any national bank, or any centralized securities deposit wherever located within the United States which is not owned directly or indirectly by any parent corporation of the deposit bank, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods." All deposits were legally secured at December 31, 2014 and 2013.

At December 31, 2014 the District's carrying amount of deposits was \$1,471,110 and the bank balance was \$1,485,386. The bank balance at one of the four banks utilized by the District exceeded Federal Depository Insurance Corporation (FDIC) limits. The balance in excess of FDIC limits were more than 5% of total bank balances resulting in a concentration of credit risk per GASBS 40, paragraph 11 (*). Of the bank balance, \$527,030 was covered by federal depository insurance and \$958,356 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2014:

	Demand Deposits on <u>12/31/2014</u>	Time Deposits on <u>12/31/2014</u>	FDIC Coverage	Pledged Securities	Unsecured Deposits
Bennington State Bank	\$446,373	\$761,982	\$250,000	958,356	-
Bank of Tescott	-	40,241	40,241	-	-
Great Plains FCU	-	176,729	176,729	-	-
Bank VI	-	60,061	60,061	-	-

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SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

At December 31, 2013 the District's carrying amount of deposits was \$2,370,665 and the bank balance was \$2,366,305. The bank balance at one of the four banks utilized by the District exceeded Federal Depository Insurance Corporation (FDIC) limits. The balance in excess of FDIC limits was more than 5% of total bank balances resulting in a concentration of credit risk per GASBS 40, paragraph 11. Of the bank balance, \$524,887 was covered by federal depository insurance and \$1,841,418 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2013:

	Demand Deposits on <u>12/31/2013</u>	Time Deposits on <u>12/31/2013</u>	FDIC <u>Coverage</u>	Pledged <u>Securities</u>	Unsecured <u>Deposits</u>
Bennington State Bank	\$1,338,144	\$753,274	\$250,000	1,841,418	-
Bank of Tescott	-	40,000	40,000	-	-
Great Plains FCU	-	174,826	174,826	-	-
Bank VI	-	60,061	60,061	-	-

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowance for doubtful accounts. Using past payment history and the aging report, the allowance as of December 31, 2014 and 2013 has been determined to be zero.

The aging of accounts receivable as of 12/31/2014:

<u>Total</u>	<u>Current</u>	<u>30 – 60 days</u>	<u>Over 60 days</u>
\$ 9,107	\$ 2,497	\$ 2,151	\$ 4,459

The aging of accounts receivable as of 12/31/2013:

<u>Total</u>	<u>Current</u>	<u>30 – 60 days</u>	<u>Over 60 days</u>
\$ 9,551	\$ 2,706	\$ 1,794	\$ 5,051

As the District uses self-read meters, the computer software is setup to charge a minimum amount if the customers do not send in a reading. Management has realized that the majority of the over 60 days balance is due to over billing. The balance will decrease in the coming year with additional usage. These customers have not been disconnected due to nonpayment.

NOTE 4 – CAPITAL ASSETS

During 2004 the District's infrastructure assets were estimated using expenditures of prior years and are stated retrospectively. Capital assets purchased or built are capitalized at cost. The water distribution system, wells and related easements and engineering costs are being depreciated over 40 years and office equipment over 5 years, both using the straight-line method.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Capital Asset Activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	(Transfer To) / Transfer From	Ending Balance
Capital Assets not Being Depreciated:					
Construction in Progress	\$ 895,673	1,029,592		(1,916,430)	\$ 8,835
Capital Assets Being Depreciated:					
Engineering Costs	\$149,699	-	-	-	\$149,699
Office Equipment	28,316	1,304	(18,006)	-	11,614
Water Wells and Easements	253,361	24,000	-	-	277,361
Distribution System	4,192,108	33,260	-	1,916,430	6,141,798
Total Capital Assets Being Depreciated	4,623,484	58,564	(18,006)	-	6,580,472
Less Accumulated Depreciation For:					
Engineering Costs	(60,300)	(3,743)	-	-	(64,043)
Office Equipment	(26,126)	(738)	18,006	-	(8,858)
Water Wells and Easements	(46,738)	(7,149)	-	-	(53,887)
Distribution System	(2,075,758)	(125,043)	-	-	(2,200,801)
Total Accumulated Depreciation	(2,208,922)	(136,673)	18,006	-	(2,327,589)
Net Being Depreciated	2,414,562	(78,109)	-	-	4,252,883
Total Capital Assets	\$ 3,310,235	951,483	-	-	\$ 4,261,718

Capital Asset Activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets not Being Depreciated:				
Construction in Progress	\$ 205,874	689,799	-	\$ 895,673
Capital Assets Being Depreciated:				
Engineering Costs	\$ 149,699	-	-	\$ 149,699
Office Equipment	26,699	1,617	-	28,316
Water Wells and Easements	252,360	1,001	-	253,361
Distribution System	4,177,473	14,635	-	4,192,108
Total Capital Assets Being Depreciated	4,606,231	17,253	-	4,623,484
Less Accumulated Depreciation For:				
Engineering Costs	(56,557)	(3,743)	-	(60,300)
Office Equipment	(25,658)	(468)	-	(26,126)
Water Wells and Easements	(42,238)	(4,500)	-	(46,738)
Distribution System	(1,966,020)	(109,738)	-	(2,075,758)
Total Accumulated Depreciation	(2,090,473)	(118,449)	-	(2,208,922)
Net Being Depreciated	2,515,758	(101,196)	-	2,414,562
Total Capital Assets	\$ 2,721,632	588,603	-	\$ 3,310,235

Depreciation expense for years ended December 31, 2014 and 2013 was \$136,673 and \$118,449 respectively.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – UNEARNED REVENUE

Multiple District customers have paid in advance for water usage. These amounts have not been earned and would be refundable if water usage discontinues. The balance of these customer credits was \$40,816 at December 31, 2014 and \$43,320 at December 31, 2013.

NOTE 6 - COMPENSATED ABSENCES POLICY

The District provides vacation leave for the Business Manager. There is no written policy for the carry forward of unused time nor for the payment of unused time at termination or retirement, therefore no accrual has been made.

NOTE 7 – BONDS PAYABLE

On December 1, 2009, the district issued \$885,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series B, 2009 with effective interest rates ranging from 1.75% to 4.75%. The purpose of the bond issue was to purchase a water tower. Interest payments are due semi-annually on June 1 and December 1. Principal payments were due starting on December 1, 2012 and maturing in 2029.

On September 11, 2012, the district issued \$760,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series 2012 with effective interest rates ranging from 1.00% to 2.75%. The new bond issue paid-off the outstanding 2004 bond issue and will be used for the future construction and remodeling of the chlorination buildings. Interest payments are due semi-annually on April 1 and October 1. Principal payments were due starting on October 1, 2013 and maturing in 2023.

On November 15, 2013, the district issued \$1,025,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series 2013 with effective interest rates ranging from 0.60% to 4.40%. The new bond issue will be used for the future construction of a new well field. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on June 1, 2014 and maturing in 2033.

2009 Bonds Payable Information:

Issuance costs of \$16,712 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$15,487 which is amortized and charged to interest expense over the life of the bonds using the straight-line method. Interest expense for 2014 and 2013 was \$774 each. A bond reserve account of \$78,563 is required to be maintained. \$86,721 is segregated as a Certificate of Deposit at Bennington State Bank as of December 31, 2014.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2015	35,000	33,135	68,135
2016	40,000	32,085	72,085
2017	40,000	30,725	70,725
2018	40,000	29,285	69,285
2019	45,000	27,785	72,785
2020-2024	255,000	109,915	364,915
2025-2029	<u>330,000</u>	<u>48,295</u>	<u>378,295</u>
Totals	<u>\$ 785,000</u>	<u>\$ 311,225</u>	<u>\$ 1,096,225</u>

2012 Bonds Payable Information:

Issuance costs of \$17,229 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$11,400 which is amortized and charged to interest over the life of the bonds using the straight-line method. Interest expense for 2014 and 2013 was \$1,267 and \$422 respectively. A bond reserve account of \$76,000 was required to be maintained until the 2013 bonds were issued. This reserve has been combined with the 2013 reserve.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – BONDS PAYABLE (CONTINUED)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2015	65,000	13,112	78,112
2016	65,000	12,463	77,463
2017	70,000	11,488	81,488
2018	65,000	10,438	75,438
2019	70,000	9,137	79,137
2020-2023	<u>295,000</u>	<u>19,375</u>	<u>314,375</u>
Totals	<u>\$ 630,000</u>	<u>\$ 76,013</u>	<u>\$ 706,013</u>

2013 Bonds Payable Information:

Issuance costs of \$13,695 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$15,375 which is amortized and charged to interest over the life of the bonds using the straight-line method. Interest expense for 2014 was \$128. A bond reserve account of \$64,242 is required to be maintained for the 2012 & 2013 bonds. \$79,989 is segregated as a Certificate of Deposit at Great Plains Federal Credit Union.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2015	45,000	30,657	75,657
2016	40,000	30,388	70,388
2017	40,000	29,988	69,988
2018	45,000	29,587	74,587
2019	40,000	28,800	68,800
2020-2024	225,000	130,280	355,280
2025-2029	275,000	91,500	366,500
2030-2033	<u>275,000</u>	<u>30,630</u>	<u>305,630</u>
Totals	<u>\$ 985,000</u>	<u>\$ 401,830</u>	<u>\$ 1,386,830</u>

NOTE 8 – EASEMENT PAYABLE

In March 2010, the District approved the payment for an easement in the amount of \$51,400 to establish a water source for the District. The payments were to be paid in four equal amounts of \$12,850 starting in January 2012.

NOTE 9 – DEBT SERVICE RATIO

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the year ending:	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Change in Net Position	\$ 69,996	\$ 154,251
Interest Expense	82,400	54,371
Depreciation	136,673	118,449
Less Capital Contributions	<u>(15,000)</u>	<u>(25,000)</u>
Total Revenue Available for Debt Service	<u>\$ 274,069</u>	<u>\$ 302,071</u>
Debt Service Payments	\$ 220,078	\$ 149,983
Debt Service Ratio	<u>1.25</u>	<u>2.01</u>

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – LONG TERM DEBT SCHEDULE

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2014.

<u>Revenue Bonds</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 01-01-14</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-14</u>	<u>Interest Paid In 2014</u>
2009	12-01-09	885,000	820,000	35,000	785,000	34,045
2012	09-11-12	760,000	695,000	65,000	630,000	13,762
2013	11-15-13	<u>1,025,000</u>	<u>1,025,000</u>	<u>40,000</u>	<u>985,000</u>	<u>32,271</u>
Total Indebtedness		<u>\$ 2,670,000</u>	<u>\$ 2,540,000</u>	<u>\$ 140,000</u>	<u>\$ 2,400,000</u>	<u>\$ 80,078</u>

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2013.

<u>Revenue Bonds</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 01-01-13</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-13</u>	<u>Interest Paid In 2013</u>
2009	12-01-09	885,000	885,000	35,000	820,000	34,850
2012	09-11-12	760,000	760,000	65,000	695,000	15,133
2013	11-15-13	<u>1,025,000</u>	<u>-</u>	<u>-</u>	<u>1,025,000</u>	<u>-</u>
Total Indebtedness		<u>\$ 2,670,000</u>	<u>\$ 1,645,000</u>	<u>\$ 100,000</u>	<u>\$ 2,540,000</u>	<u>\$ 49,983</u>

NOTE 11 – LOANS PAYABLE

In 2014, the District executed a loan agreement with the Kansas Department of Health and Environment Public Water Supply Loan Fund for the purpose of financing a public water supply project. The Loan from KDHE is not expected to exceed \$970,929. The interest rate is 2.6% with payments of \$31,283 per month that will not begin until August 1, 2016. As of December 31, 2014 the loan proceeds reside with the Kansas Department of Health and Environment and the District has not drawn on the loan.

NOTE 12 – BUDGETS AND BUDGETARY ACCOUNTING

Per K.S.A. 82a-628, the Board is required to annually prepare an estimated budget for the coming year. The Board approves a budget each year which is used by management to internally monitor the District's expenditures, and is presented as supplementary information.

NOTE 13 - RETIREMENT PLAN

The District provides a Simple IRA for the full time employees as retirement compensation. The District contributes 3% of the eligible employee wages to these IRAs. In 2014, the District contributed \$2,515 and in 2013, \$2,341 to the retirement plan. The IRAs are with American Funds.

NOTE 14 - LITIGATION

There were no legal actions involving the District as of December 31, 2014.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
SALINA, KANSAS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – RELATED PARTIES

All the members of the board of directors and all employees are water district customers. The only material transactions were water purchases consummated on the same terms as all other water customers. All were current at year-end.

NOTE 16 – RISK MANAGEMENT

Ottawa County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage.

NOTE 17 – SUBSEQUENT EVENTS

Management has performed an analysis of the activities and transactions subsequent to December 31, 2014 to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through May 8, 2015, which is the date at which the financial statements were available to be issued.

On February 11, 2015 the Board approved a bid of \$804,600 for the construction of the 300,000 gallon water tower on Ohio Street. The construction will be paid for with the loan from the Kansas Department of Health and Environment as described in Note 11.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
BUDGET REPORT - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Budget</u>	<u>Actual</u>	Variance Over (Under)
OPERATING REVENUES			
Water Revenues	\$ 522,680	\$ 583,410	\$ 60,730
OPERATING EXPENSES			
Chlorine Fee	4,600	4,125	(475)
Clean Drinking Water Fee	1,830	1,848	18
Contract Wages	80,000	79,015	(985)
Dues and Subscriptions	900	803	(97)
Fees and Permits	-	900	900
Insurance	18,317	17,555	(762)
Internet Fee	624	624	-
IRA Contributions	2,530	2,515	(15)
Lab Fees	850	885	35
Mileage	22,000	25,481	3,481
Miscellaneous	3,575	4,554	979
Office Supplies Expense	5,000	6,551	1,551
Payroll Taxes	6,885	6,287	(598)
Power	40,000	36,572	(3,428)
Professional Fees	25,000	15,914	(9,086)
Repairs and Maintenance	23,000	24,337	1,337
Salaries & Wages	90,000	90,466	466
Supplies Expense	3,500	3,881	381
Telephone	6,300	6,038	(262)
Water Protection Fee	-	1,971	1,971
TOTAL OPERATING EXPENDITURES	<u>334,911</u>	<u>330,322</u>	<u>(4,589)</u>
DEBT RETIREMENT:			
Bond Principal Paid	140,000	140,000	-
Bond Interest	80,078	80,078	-
Easement Principal Paid	12,850	12,850	-
TOTAL EXPENDITURES	<u>567,839</u>	<u>563,250</u>	<u>(4,589)</u>
OTHER INCOME (EXPENSES)			
New Benefit Units	20,000	15,000	(5,000)
Interest Income	13,000	15,190	2,190
Decrease in Reserves	-	11,412	11,412
Proceeds from Bond Issue	-	861,210	861,210
Issuance Costs of Bonds	-	(9,542)	(9,542)
Other Income and Expense	14,000	15,968	1,968
Capital Improvements	-	(938,325)	(938,325)
TOTAL OTHER INCOME (EXPENSE)	<u>47,000</u>	<u>(29,087)</u>	<u>(76,087)</u>
INCREASE (DECREASE) IN CASH	<u>\$ 1,841</u>	<u>\$ (8,927)</u>	<u>\$ (10,768)</u>